



# Solvency Reserve Accounts Implementation Considerations

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# Agenda

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Solvency Reserve Accounts Background

A Simple Solution

A More Complex Solution

Some Practical Considerations

# Why Solvency Reserve Accounts?

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## **Court Cases**

- Original trust and plan documents matter
- Trust law vs. pension law

## **Low Interest Rate Environment**

- Higher solvency contributions
- What happens when interest rates rise?

## **Highlights Asymmetric Risk**

- Plan sponsors responsible for funding deficits
- May not own surplus

# Solvency Reserve Accounts – PBSA Wording

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## 54 Solvency reserve account

- (1) In this section, "**solvency reserve account**" means the separate account set up under subsection (2).
- (2) If the plan text document of a pension plan contains a benefit formula provision, other than a target benefit provision, the administrator may set up a separate account within the plan's pension fund.
- (3) The only funds that may be deposited to a solvency reserve account are payments made in respect of a solvency deficiency.
- (4) Without limiting subsection (3), assets must not be transferred from an account in a pension fund to a solvency reserve account in the same pension fund.
- (5) Despite any wording in the plan text document of a pension plan, prescribed actuarial excess or surplus in the solvency reserve account may be withdrawn, subject to and in accordance with the regulations, by a prescribed person.

# A Simple Solution

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## Simple Solution

- Create a notional solvency reserve account that is tracked via the actuarial valuation report

## Considerations

- Simple to implement
- Lower cost - implementation and ongoing
- Assets still held in account under the same trust agreement
- Higher risk of a successful legal challenge?

# A More Complex Solution

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## Complex Solution

- Create a new solvency reserve account with a separate trust

## Considerations

- More complex to implement
- Higher cost – implementation and ongoing
- Assets held under solvency reserve account trust agreement
- Less risk of a successful legal challenge?

# Practical Considerations

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- Benefit and expense payments
- Letters of credit
- Investment strategy

# Discussion

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